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## **VODATEL NETWORKS HOLDINGS LIMITED**

**愛達利網絡控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

Stock Code: 8033

### **BUSINESS AND FINANCIAL HIGHLIGHTS FOR THE YEAR**

- Although the Group experienced another year of impressive growth with its business from Mainland China growing 64.61% on a year-on-year basis, such growth was offset by the gaming sector in Macao that remained lacklustre and challenges faced by the team in Hong Kong. During the Year, total contracts secured by the Group reached HK\$420,000,000, representing an increase of 7.2% as compared to 2020
- Revenue for the Year amounted HK\$413,079,000, which represented a 3.91% year-on-year growth over 2020 of HK\$397,527,000. Gross profit was only HK\$97,549,000, or a decline of 2.98%, translating to gross profit margin of 23.62%, or a 1.67 percentage-point drop as compared to 2020
- Decline in gross profit margin was attributable primarily to contracts secured from gaming operators in Macao with lower margins due to intense competition, increasing competition from SD-WAN vendors that hurt the margins of contracts secured in Hong Kong and the need to absorb partial price hikes from suppliers due to shortage of electronic components
- With higher freight costs, an impairment loss of financial assets at FVOCI of HK\$4,018,000 due to the default of the CFLD Bond and CFLD Bond 2 and lesser COVID-19-related relief received, loss for the Year from continuing operations was HK\$5,762,000 as compared to profit from continuing operations of HK\$3,029,000 for 2020
- MDL was again selected to provide support services at the legislative election in Macao held in September 2021
- On 30th December 2021, the Group disposed of equity interest in Tidestone Group to below 50%
- Equity base was HK\$184,472,000 as at 31st December 2021, of which cash and cash equivalents and yield-enhanced financial instruments stood at a healthy level of HK\$89,623,000
- The Directors recommend payment of a final dividend of HK\$0.01 per Share for the Year

## RESULTS

The Board is pleased to present the audited consolidated results of the Group for the Year as follows:

### Consolidated statement of profit or loss

	Notes	Year ended 31st December	
		2021	2020
		HK\$'000	Restated HK\$'000
<b>Continuing operations</b>			
Revenue from contracts with customers	2	413,079	397,527
Cost of sales of goods	3	(219,542)	(217,106)
Cost of providing services		(95,988)	(79,877)
		<hr/>	<hr/>
<b>Gross profit</b>		97,549	100,544
Selling and marketing costs	3	(18,198)	(17,039)
Administrative expenses	3	(84,048)	(84,463)
(Net)/reversal of impairment losses on financial assets		(4,374)	624
Other gains – net		748	1,086
		<hr/>	<hr/>
<b>Operating (loss)/profit</b>		(8,323)	752
		<hr/>	<hr/>
Finance income		2,999	3,469
Finance costs		(126)	(112)
		<hr/>	<hr/>
Finance income – net		2,873	3,357
		<hr/>	<hr/>
<b>(Loss)/profit before income tax</b>		(5,450)	4,109
Income tax expense	4	(312)	(1,080)
		<hr/>	<hr/>
<b>(Loss)/profit from continuing operations</b>		(5,762)	3,029
(Loss)/profit from discontinued operation	9(b)(i)	(2,669)	699
		<hr/>	<hr/>
<b>(Loss)/profit for the Year</b>		<u>(8,431)</u>	<u>3,728</u>

		<b>Year ended 31st December</b>	
	Notes	<b>2021</b>	2020
		<b>HK\$'000</b>	Restated HK\$'000
<b>(Loss)/profit is attributable to:</b>			
Owners of the Company		<b>(6,321)</b>	3,826
NCI		<b>(2,110)</b>	(98)
		<u><b>(8,431)</b></u>	<u>3,728</u>
 <b>(Loss)/earnings per Share for (loss)/profit from continuing operations attributable to the ordinary equity holders of the Company:</b>			
		<b>HK cent</b>	HK cent
Basic and diluted (loss)/earnings per Share	5(a)&(b)	<u><b>(0.73)</b></u>	<u>0.54</u>
 <b>(Loss)/earnings per Share for (loss)/profit attributable to the ordinary equity holders of the Company:</b>			
		<b>HK cents</b>	HK cent
Basic (loss)/earnings per Share	5(a)	<u><b>(1.03)</b></u>	<u>0.62</u>
Diluted (loss)/earnings per Share	5(b)	<u><b>(1.02)</b></u>	<u>0.62</u>
<b>Dividends (expressed in HK\$'000)</b>	6(b)	<u><b>6,144</b></u>	<u>6,144</u>

## Consolidated statement of comprehensive income

	Year ended 31st December	
	2021	2020
	HK\$'000	Restated HK\$'000
<b>(Loss)/profit for the Year</b>	<b>(8,431)</b>	3,728
<b>(Other comprehensive loss)/OCI</b>		
<i>Items that may be reclassified to profit or loss</i>		
Changes in the fair value of debt instruments carried at FVOCI	<b>(3,073)</b>	(1,128)
Release to profit or loss upon disposal of debt instruments carried at FVOCI	<b>157</b>	188
Exchange differences on translation of foreign operations	<b>(121)</b>	(306)
Release to profit or loss on disposal of subsidiaries	<b>2,624</b>	–
<b>Other comprehensive loss for the Year, net of tax</b>	<b>(413)</b>	(1,246)
<b>Total comprehensive (loss)/income for the Year</b>	<b>(8,844)</b>	2,482
Total comprehensive (loss)/income for the Year is attributable to:		
Owners of the Company	<b>(6,734)</b>	2,597
NCI	<b>(2,110)</b>	(115)
	<b>(8,844)</b>	2,482
Total comprehensive (loss)/income for the Year attributable to owners of the Company arose from:		
Continuing operations	<b>(8,793)</b>	1,815
Discontinued operation	<b>(51)</b>	667
	<b>(8,844)</b>	2,482

## Consolidated balance sheet

	Notes	As at 31st December	
		2021 HK\$'000	2020 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		1,724	2,944
Right-of-use assets – buildings		1,281	3,070
Interests in an associate		–	–
Financial assets at FVOCI		58,858	36,075
		<hr/>	<hr/>
Total non-current assets		61,863	42,089
<b>Current assets</b>			
Inventory – networking equipment		15,823	19,808
Prepayment		46,616	46,576
Contract assets		63,190	33,924
Trade receivable	7	113,021	108,574
Other receivables and deposits		8,103	10,287
Financial assets at FVOCI		3,800	7,545
Financial assets at fair value through profit or loss		–	5,929
Cash and cash equivalents		26,965	70,891
		<hr/>	<hr/>
Total current assets		277,518	303,534
		<hr/>	<hr/>
<b>Total assets</b>		339,381	345,623
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Lease liabilities		357	1,511
		<hr/>	<hr/>
<b>Current liabilities</b>			
Trade payable	8	76,126	61,553
Other accounts payable and accruals		20,880	22,546
Contract liabilities		44,912	50,815
Current tax liabilities		8,131	11,457
Borrowing		3,514	–
Lease liabilities		989	1,626
		<hr/>	<hr/>
Total current liabilities		154,552	147,997
		<hr/>	<hr/>
<b>Total liabilities</b>		154,909	149,508
		<hr/>	<hr/>
<b>Net current assets</b>		122,966	155,537
		<hr/>	<hr/>
<b>Net assets</b>		184,472	196,115
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	<b>As at 31st December</b>	
	<b>2021</b>	2020
	<b>HK\$'000</b>	HK\$'000
<b>EQUITY</b>		
Share capital	<b>61,771</b>	61,570
Other reserves	<b>143,676</b>	144,866
Accumulated losses	<b>(17,976)</b>	(6,288)
	<hr/>	<hr/>
Capital and reserves attributable to owners of the Company	<b>187,471</b>	200,148
NCI	<b>(2,999)</b>	(4,033)
	<hr/>	<hr/>
<b>Total equity</b>	<b><u>184,472</u></b>	<b><u>196,115</u></b>

The audited consolidated results of the Group for the Year have been reviewed by the audit committee of the Company.

Notes:

## 1 Basis of preparation

### (a) *Compliance with HKFRS*

The consolidated financial statements of the Company were prepared in accordance with HKFRS.

Certain comparative figures have been restated to reflect the impact of discontinued operations, please refer to note 9 for more details.

### (b) *Historical cost convention*

The consolidated financial statements were prepared on a historical cost basis, except for financial assets at FVOCI, which are measured at fair value.

### (c) *Amended standards adopted by the Group*

The Group applied the following amendments for the first time for its annual reporting period commencing 1st January 2021:

- *Interest Rate Benchmark Reform – Phase 2 - amendments to HKFRS 9 Financial Instruments, HKAS 39 Financial Instruments: Recognition and Measurement, HKFRS 7 Financial Instruments: Disclosures, HKFRS 4 Insurance Contracts and HKFRS 16 Leases*

The amendments listed above did not have any impact on the amounts recognised in prior periods and were not expected to significantly affect the current or future periods.

### (d) *New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations were published that were not mandatory for 31st December 2021 reporting periods and were not early adopted by the Group. These standards were not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

## 2 Revenue recognition

### (a) *Project sales*

Revenue from the design, sale and implementation of network and systems infrastructure; customer data automation, customisation and integration; and provision of technical support services was recognised based on the stage of completion of the contracts, provided that the stage of contract completion and the gross billing value of contracting work could be measured reliably.

Some contracts included multiple deliverables, such as the sale of hardware and related installation services. However, the installation could be performed by another party. It was therefore accounted for as a separate performance obligation.

Where the contracts included multiple performance obligations, the transaction price would be allocated to each performance obligation based on the stand-alone selling prices. For these contracts, revenue for the hardware was recognised at a point in time when the hardware was delivered, the legal title passed and the customer accepted the hardware. Revenue for service components was recognised based on the actual services provided to the end of the reporting period.

The customer paid the fixed amount based on a payment schedule. If the services rendered by the Group exceeded the payment, a contract asset was recognised. If the payments exceeded the service rendered, a contract liability was recognised.

(b) *Sales of services*

The Group sold maintenance services to the end users. Revenue from fixed-price contracts for delivering maintenance services was generally recognised in the period the services were provided, using a straight-line basis over the term of the contract. These services were provided as a fixed-price contract, with contract terms generally ranging from less than one year to three years.

(c) *Sales of software*

Revenue from software implementation was recognised when the customer accepted and took the control of software implementation. Revenue was based on the price specified in the contracts. No elements of financing was deemed present as the sales were made with a credit term of thirty to forty-five days, which was consistent with market practice.

(d) *Financing components*

The Group did not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeded one year. As a consequence, the Group did not adjust any of the transaction prices for the time value of money.

**3 Expenses by nature**

	<b>2021</b>	2020
	<b>HK\$'000</b>	Restated HK\$'000
Changes in inventory	<b>218,517</b>	215,773
Employee benefit expense and Directors' emoluments	<b>73,289</b>	77,117
Provision on inventory	<b>1,025</b>	1,333

**4 Income tax expense**

	<b>2021</b>	2020
	<b>HK\$'000</b>	HK\$'000
<i>Current tax</i>		
Current tax on profits for the Year		
– Macao complementary profits tax	<b>286</b>	1,082
– Mainland China corporate income tax	<b>213</b>	–
Adjustments for current tax of prior periods	<b>–</b>	(2)
<b>Income tax expense</b>	<b>499</b>	1,080
Income tax expense is attributable to:		
Profit from continuing operations	<b>312</b>	1,080
Profit from discontinued operation	<b>187</b>	–
	<b>499</b>	1,080



## 5 (Loss)/earnings per Share

### (a) Basic (loss)/earnings per Share

Basic (loss)/earnings per Share was calculated by dividing:

- the (loss)/profit attributable to owners of the Company
- by the weighted average number of Shares outstanding during the Year.

	<b>2021</b>	2020
	<b>HK Cents</b>	HK Cent
From continuing operations attributable to the ordinary equity holders of the Company	<b>(0.73)</b>	0.54
From discontinued operation	<b>(0.30)</b>	0.08
	<u>          </u>	<u>          </u>
Total basic (loss)/earnings per Share attributable to the ordinary equity holders of the Company	<b><u>(1.03)</u></b>	<b><u>0.62</u></b>

### (b) Diluted (loss)/earnings per Share

Diluted (loss)/earnings per Share adjusted the figures used in the determination of basic (loss)/earnings per Share to take into account the weighted average number of additional Shares that would have been outstanding assuming the conversion of all dilutive potential Shares.

	<b>2021</b>	2020
	<b>HK Cents</b>	HK Cent
From continuing operations attributable to the ordinary equity holders of the Company	<b>(0.73)</b>	0.54
From discontinued operation	<b>(0.29)</b>	0.08
	<u>          </u>	<u>          </u>
Total diluted (loss)/earnings per Share attributable to the ordinary equity holders of the Company	<b><u>(1.02)</u></b>	<b><u>0.62</u></b>

### (c) Reconciliation of (loss)/earnings used in calculating (loss)/earnings per Share

	<b>2021</b>	2020
	<b>HK\$'000</b>	HK\$'000
<i>Basic and diluted (loss)/earnings per share</i>		
(Loss)/profit attributable to the ordinary equity holders of the Company used in calculating basic and diluted (loss)/earnings per Share:		
From continuing operations	<b>(4,513)</b>	3,297
From discontinued operation	<b>(1,808)</b>	529
	<u>          </u>	<u>          </u>
	<b><u>(6,321)</u></b>	<b><u>3,826</u></b>

(d) *Weighted average number of Shares used as the denominator*

	<b>2021</b>	2020
	<b>Number</b>	Number
Weighted average number of Shares used as the denominator in calculating basic (loss)/earnings per Share (thousands)	<b>614,794</b>	614,435
Adjustments for calculation of diluted (loss)/earnings per Share: Options	<u><b>3,444</b></u>	<u>–</u>
Weighted average number of Shares and potential Shares used as the denominator in calculating diluted (loss)/earnings per Share (thousands)	<u><b>618,238</b></u>	<u>614,435</u>

(e) *Information concerning the classification of securities – Options*

Options granted to the Directors and employees were considered to be potential Shares. They were included in the determination of diluted (loss)/earnings per Share to the extent to which they were dilutive. The Options were not included in the determination of basic (loss)/earnings per Share. The 19,884,000 Options granted on 9th April 2020 were not included in the calculation of diluted earnings per Share for the year ended 31st December 2020 because they were antidilutive.

## 6 Dividends

The Company will give notice of the closure of its register of Members once the date of the AGM is determined. Such notice will be given at least ten days (excluding Saturday and Sunday) on which banks in Hong Kong are generally open for business, before such closure, pursuant to Rule 17.78 of the GEM Listing Rules. The expected dividend payment date is 8th July 2022, subject to the approval of the Members in the forthcoming AGM.

(a) *Shares*

	<b>2021</b>	2020
	<b>HK\$'000</b>	HK\$'000
Final dividend for the year ended 31st December 2020 of HK\$0.01 (2019: HK\$0.01) per Share	<u><b>6,144</b></u>	<u>6,144</u>

(b) *Dividends not recognised at the end of the reporting period*

	<b>2021</b>	2020
	<b>HK\$'000</b>	HK\$'000
In addition to the above dividend, since year end the Directors have recommended the payment of a final dividend of HK\$0.01 per fully paid Share for the Year (2020: HK\$0.01). The aggregate amount of the proposed dividend expected to be paid out of contributed surplus as at 31st December 2021, but not recognised as a liability at year end, is	<u><b>6,144</b></u>	<u>6,144</u>

## 7 Trade receivable

As at 31st December, the ageing analysis of the trade receivable based on invoice date was as follows:

	2021 HK\$'000	2020 HK\$'000
Within three months	90,084	89,649
> Three months but ≤ six months	15,976	12,752
> Six months but ≤ twelve months	1,718	5,025
Over twelve months	15,656	16,598
	<u>123,434</u>	<u>124,024</u>
Less: loss allowance	(10,413)	(15,450)
	<u><u>113,021</u></u>	<u><u>108,574</u></u>

## 8 Trade payable

As at 31st December, the ageing analysis of the trade payable based on invoice date was as follows:

	2021 HK\$'000	2020 HK\$'000
Within three months	68,583	56,656
> Three months but ≤ six months	–	2,432
> Six months but ≤ twelve months	2,244	1,347
Over twelve months	5,299	1,118
	<u>76,126</u>	<u>61,553</u>

## 9 Discontinued operation

### (a) Description

On 30th December 2021, the Group disposed of 32.36% of the equity interest of Tidestone Group and it was reported in the current period as a discontinued operation. Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

(b) *Financial performance and cash flow information*

The financial performance and cash flow information presented are for the Year and the year ended 31st December 2020.

(i) Results from discontinued operation

	<b>2021</b>	2020
	<b>HK\$'000</b>	HK\$'000
Revenue from contracts with customers	<b>11,206</b>	11,142
Expenses	<b>(14,760)</b>	(11,219)
Other gains – net	<b>19</b>	798
	<hr/>	<hr/>
Operating (loss)/profit	<b>(3,535)</b>	721
Finance income	<b>6</b>	4
Finance costs	<b>(15)</b>	(26)
	<hr/>	<hr/>
(Loss)/profit after income tax of discontinued operation	<b>(3,544)</b>	699
Gain on sale of Tidestone Group after income tax	<b>875</b>	–
	<hr/>	<hr/>
(Loss)/profit from discontinued operation	<b>(2,669)</b>	699
	<hr/> <hr/>	<hr/> <hr/>

(ii) OCI from discontinued operation

Exchange differences on translation of discontinued operation	<b>(6)</b>	(32)
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(iii) Cash flows from discontinued operation

Net cash (outflow)/inflow from operating activities	<b>(732)</b>	3,620
Net cash outflow from investing activities	<b>(95)</b>	(140)
Net cash outflow from financing activities	<b>(201)</b>	(289)
	<hr/>	<hr/>
<b>Net (decrease)/increase in cash from discontinued operation</b>	<b>(1,028)</b>	3,191
	<hr/> <hr/>	<hr/> <hr/>

(c) *Details of the sale of Tidestone Group*

	<b>2021</b> <b>HK\$'000</b>
<b>Gain on sale before tax</b>	<b>1,062</b>
Income tax expense on gain	<u>(187)</u>
<b>Gain on sale after income tax</b>	<b><u>875</u></b>

The carrying amounts of assets and liabilities as at 30th December 2021 were:

	<b>2021</b> <b>HK\$'000</b>
Non-current assets	<b>616</b>
Current assets	<b>18,964</b>
Current liabilities	<u>(26,443)</u>
Net liabilities	<b><u>(6,863)</u></b>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **VODATEL – AT A GLANCE!**

Headquartered in Macao, Vodatel is an integrated company that operates under the “Multiple Branding” philosophy, with “Vodatel” and “Mega Datatech” each positioned to achieve market differentiation, yet complementing one another in product and service offerings. Always putting customers first, the primary driver at Vodatel is to become the partner-of-choice of its customers when they seek a local partner for turnkey solutions or service provisioning that aligns their expectations in level of choices and service requirements and matches their demands, values and aspirations.

As a system integrator and service provider that already represented a list of international and renowned manufacturers, the Group is in continuous pursuit to identify products with high potential, in particular within their areas of expertise, to grow and complement its current products and service offerings. In terms of human resources, the Group continues to house a team of highly trained, skilled and experienced engineers, making “Vodatel” and “Mega Datatech” among the most sought companies to provide round-the-clock and reliable system maintenance and support services, in particular in handling sophisticated turnkey solutions where unexpected hiccups, which if not promptly resolved or contained, can potentially result in significant business and/or service interruptions.

### **REVIEW OF BUSINESS ACTIVITIES**

Although the Group experienced another year of impressive growth with its business from Mainland China growing 64.61% on a year-on-year basis, such growth was offset by the gaming sector in Macao that remained lacklustre and challenges faced by the team in Hong Kong. During the Year, total contracts secured by the Group reached HK\$420,000,000, representing an increase of 7.2% as compared to 2020.

## **Business in Macao**

With the pandemic against the backdrop, total contracts secured by VHL and MDL were approximately HK\$251,000,000, representing a 3.4% decline as compared to 2020.

Macao managed to remain a COVID-19-free city and Mainland China continued to be the only place to have a largely quarantine-free travel bubble with Macao. During the Year, there were signs of recovery as evidenced by number of arriving tourists reported by DSEC and monthly gross revenue from games of fortune reported by the Gaming Inspection and Coordination Bureau. However, as a tourist-centric city, Macao remains highly sensitive to any COVID-19 outbreak, both locally and in neighbouring cities, e.g. Zhuhai in Guangdong, and impact to number of arriving tourists and monthly gross revenue from games of fortune, which are highly correlated, is immediate. Clear examples were August and September 2021 where local confirmed cases were found and number of arriving tourists and monthly gross revenue from games of fortune for the months of August and October were the lowest in the Year. In addition to COVID-19, expiry of the gaming concessions in 2022, coupled with the consultation paper released in September 2021 calling for shorter licence tenure, higher capital base and scrutiny over certain operations, added more challenges to the business environment of Macao. With all the above-mentioned uncertainties and business not yet back to pre-pandemic level, it is not surprising that gaming operators continued to play cautious with their capital expenditure programmes. Within the product domain of the Group, namely surveillance and data networks, gaming operators shied away from major upgrade and improvements and focused primarily on maintenance and on solutions that will assist in the attraction of customers. Therefore, total contracts secured from different gaming operators amounted to approximately HK\$48,000,000, which represented a drop of over 30% as compared to 2020. If compared against 2019, total contracts signed in the Year represented only 20% of total secured in that year.

To circumvent the impact of COVID-19 in the gaming sector, similar to 2020, the Group continued to put more focus on the Government of Macao and other key vertical markets, such as utilities, education, insurance, health and transportation. During the Year, VHL and MDL in combination secured HK\$204,000,000 worth of contracts from the Government of Macao and other key vertical markets, which represented a 7.4% year-on-year increase. Of the total contracts secured, MDL attributed over 60%, which aligns the strategic position of MDL within the non-gaming sectors. Contracts received covered areas of networks infrastructure, surveillance, TETRA radio, access control, public access, servers and storage, firewalls, software development and maintenance services, with Public Security Police Force Bureau, Judiciary Bureau, Marine and Water Bureau, Identification Bureau, Financial Services Bureau, Meteorological and Geophysics Bureau, DSEC, Social Security Fund, to name a few, remain some of the key Government departments supported by both VHL and MDL. During the Year, MDL was again selected to provide support services at the legislative election in Macao that was held in September 2021, this project of which again reinforces the position of MDL as a reliable and trusted partner of the Government of Macao.

## **Business in Hong Kong and Mainland China**

In Hong Kong, the COVID-19 pandemic and customers that the Hong Kong team serves not having a major play in 5G continued to challenge the business of the Group. During the Year, the Hong Kong team signed approximately HK\$48,000,000 worth of data networks and SD-WAN infrastructure contracts, which trailed behind total contracts secured in 2020 by almost HK\$9,000,000 or a 15.3% year-on-year decline. Business of SD-WAN infrastructure lost some ground with only HK\$27,000,000 worth of contracts registered as compared to HK\$39,500,000 worth of contracts received in 2020 due to increasing competition from other SW-WAN vendors. Thanks to a local telecommunications service provider being added to the customer base in 2020, business of data networks infrastructure grew by 22.0% to reach HK\$21,400,000 in the Year.

In Mainland China, with the COVID-19 pandemic well under control, prospects of this market remains fundamentally attractive. As local and regional telecommunications and Internet service providers, some of which are key customers of the Group continued to scale up their infrastructure for faster, improved and better customer experience, total contracts secured during the Year reached HK\$120,500,000, representing a whopping 61.4% year-on-year growth as compared to 2020. Strong business growth were experienced across both data networks and SD-WAN infrastructure with contracts of data networks infrastructure jumping 87.8% and SD-WAN infrastructure increasing 21.1% to HK\$75,000,000 and HK\$44,000,000 respectively. Key growth driver in data networks infrastructure continued to be attributable to a leading provider of Internet value-added service provider building new data centres in Latin America and expanding networks capacity at existing data centres in Asia Pacific. Growth of SD-WAN infrastructure was attributed to continuous collaborations with different local and regional telecommunications and Internet service providers, with key projects secured including a contract from a leading city/town real estate developer and lifestyle service provider with geographical focus in three major economic circles and key cities in mid-west Mainland China and a contract from a leading multi-brand hotel chain that operates more than four thousand hotels in over four hundred cities.

## **Other Investment Holdings**

**Tidestone Group** – The business focus of Tidestone Group remains on the promotion of its self-developed “Tidestone”- branded network management system, with key functionalities including real-time network discovery and performance management, fault management and environmental management. On 30th December 2021, the Group reduced its equity interests in Tidestone Group to below 50% as a means to pave way for its possibility to be eligible for the application of the value-added telecommunication licence to offer 1. online data processing and transaction processing services for the operation of e-commerce business; 2. Internet protocol-based virtual private network services; 3. Internet data centre services; 4. Internet access services (except for providing Internet access services to end users); and 5. other content services (except for electronic application stores) in Mainland China. The disposal was also triggered by the net liabilities position of the Tidestone Group, hence the disposal is expected to enhance the net assets position of the Group and return of investment to its Members.



During the Year, Tidestone Group signed approximately HK\$22,000,000 worth of contracts as compared to HK\$16,255,000 in 2020. Projects included the deployment of its cloud-based CNMS and also upgrade and expansion of its installed CNMS for telecommunications service providers in the provinces of Guangdong, Jiangxi, Jiangsu, Hebei, Hubei and Hunan and the municipalities of Chongqing and Shanghai.

**TTSA** – During the Year, TTSA reported slight improvements to its operating performance. As per the unaudited financial statements of TTSA, revenue grew 4.35% from HK\$177,115,000 in 2020 to HK\$184,824,000 in the Year. Earnings before interest, tax, depreciation and amortisation increased 3.09% from HK\$60,582,000 in 2020 to HK\$62,454,000 in the Year and for the first time since 2013, TTSA reported net profit of HK\$4,521,000 for the Year as compared to net loss of HK\$25,200,000 for the preceding year.

Despite improvements to the operating performance at TTSA, with continued delay in the deployment of fibre optic cable to Timor-Leste, lack of sufficient mobile spectrum for 4G and regulators requesting prepaid SIM card to be registered, turnaround of the operating performance of TTSA has yet to be confirmed.

There is no updates regarding any potential disposal of the shareholding of Oi S.A. – In Judicial Reorganisation, a company incorporated in Brazil with limited liability and whose shares are listed on the New York Stock Exchange in the United States of America and B3 S.A. – Brasil, Bolsa, Balcão in Brazil, in TTSA. The Group will continue to watch out for any new development and will continue to evaluate and consider other strategic options to adopt over its equity share in TTSA.

## **Outlook of 2022**

After the outbreak of COVID-19 in January 2020, a series of precautionary and control measures have been in effect across Macao, Hong Kong and Mainland China. As at 29th March 2022, being the latest practicable date, the Group has witnessed slowdown in its business activities in Macao and Hong Kong as the outbreak has caused interruptions to the capital expenditures programmes of certain customers of the Group. The Group is engaged in building data networks and information technology infrastructure primarily for the Government of Macao, gaming operators in Macao and telecommunications service providers in Hong Kong and Mainland China where the end users are the general public, visitors and enterprises. With different governments calling for the general public to stay at home and avoid social gathering, reduced business activities and imposing travelling restrictions, the demand for services of Government of Macao, different gaming operators and telecommunications service providers varies. The Group will continue to pay close attention to the development of COVID-19 and evaluate for any enduring impact on the business prospects of the Group.

## **REVIEW OF OPERATING RESULTS**

With the disposal of the equity interests in Tidestone Group to below 50%, going forward, Tidestone Group will be equity accounted for, hence the financial figures for 2020 were restated as comparatives.

## Turnover and Profitability

With total contracts secured by the Group in the Year reached HK\$420,000,000, representing an increase of 7.2% as compared to 2020, revenue for the Year amounted to HK\$413,079,000, which represented a 3.91% year-on-year growth over 2020 of HK\$397,527,000. Gross profit was only HK\$97,549,000, or a decline of 2.98% over the preceding year of HK\$100,544,000, translating to a gross profit margin of 23.62%, or a 1.67 percentage-point drop over 2020. Decline in gross profit margin was attributable primarily to contracts secured from gaming operators in Macao with lower margins due to intense competition as a result of lack of ample works within the gaming sector, increasing competition from SD-WAN vendors that hurt the margins of contracts secured in Hong Kong and the need to absorb partial price hikes from suppliers due to shortage of electronic components.

Selling and marketing costs increased from HK\$17,039,000 in 2020 to HK\$18,198,000 in the Year. Included in selling and marketing costs is freight costs, which increased by HK\$1,680,000 or a 28.8% year-on-year increase as a result of accelerated supply chain interruptions and need to catch up the long delivery lead time from equipment suppliers due to shortage of electronic components.

Administrative expenses slightly decreased from HK\$84,463,000 in 2020 to HK\$84,048,000 in the Year. Included in administrative expenses is staff costs, which remains the biggest cost element of the Group. To control this cost element and to align the shift of business momentum from gaming to the Government of Macao and other key vertical markets and from Macao to Mainland China, the Group continued to mobilise the gaming technical team to take on non-gaming projects and the Macao technical team to take on projects in Mainland China. During the Year, with vacancies filled only where necessary, the Group also further streamlined its operations, thus total headcounts dropped 7.74% from 168 to 155, resulting in total employee benefit expenses and Directors' emoluments decreased from HK\$77,117,000 in 2020 to HK\$73,289,000 in the Year.

Despite steps taken to control staff costs, in view of weaker gross profit margin and increase in freight costs, coupled with an impairment loss of financial assets at FVOCI to its market value of HK\$4,018,000 as a result of the default of the CFLD Bond and CFLD Bond 2 subsequent to new financing limits for the property sector imposed by the Central Government in 2020 and only HK\$194,000 COVID-19-related relief received from the Government of Macao as compared to total HK\$1,325,000 relief from the Government of Macao and the Government of Hong Kong, the Group registered loss from continuing operations of HK\$5,762,000 in the Year. Taking into consideration the loss from the discontinued operation of HK\$2,669,000, the Group reported loss for the Year of HK\$8,431,000 as compared to profit of HK\$3,728,000 for 2020.

## Capital Structure and Financial Resources

With no major projects in progress that requires the need to build up inventory, level of inventory stood at HK\$15,823,000 as at 31st December 2021 as compared to HK\$19,808,000 as at 31st December 2020. Trade receivable was at HK\$113,021,000 as at 31st December 2021, which was within a 10% range as compared to 2020. Loss allowance against contract assets and trade receivable of HK\$184,000 was only made, which aligns the credit quality of the customers of the Group and also prudent measures taken in the extension of credit terms. Contract assets increased considerably from HK\$33,924,000 as at 31st December 2020 to HK\$63,190,000 as at 31st December 2021 as approximately HK\$33,000,000 of contract assets were related to equipment delivered and work completed for the supply and installation of a surveillance system (together with underlying data networks infrastructure) for a gaming operator at its new integrated resort in Cotai and for the supply and installation of a general hospital nurse call system at a new local health service complex in Macao, whose invoices were only submitted to the respective customers in January 2022. Similar to trade receivable, trade payable and contract liabilities in aggregate were at HK\$121,038,000 as at 31st December 2021, which was also within a 10% range as compared to 2020.

The Group continues to exercise capital discipline and maintains a solid balance sheet with low gearing. As at 31st December 2021, a bank borrowing of HK\$3,514,000 was incurred by MDL to finance an invoice, which is a new practice adopted during the Year to encourage major subsidiaries to be self-sustained with its cashflow. Equity base was HK\$184,472,000 as at 31st December 2021, of which cash and cash equivalents and yield-enhanced financial instruments stood at a healthy level of HK\$89,623,000. Due to the impairment loss of financial assets at FVOCI associated with the default of CFLD Bond and CFLD Bond 2 of HK\$4,018,000, financial assets at FVOCI (both current and non-current) of HK\$62,658,000 comprised primarily of investments in yield-enhanced financial instruments. Among the bond holdings were HK\$3,196,000 from FWD Group Limited (a company incorporated in the Cayman Islands with limited liability), HK\$3,146,000 from a subsidiary of Hysan Development Company Limited (a company incorporated in Hong Kong with limited liability and whose shares are listed on the Main Board) and HK\$3,022,000 from GLP Pte. Ltd., (a company incorporated in the Republic of Singapore with limited liability). As at 28th February 2022, the market values of CFLD Bond and CFLD Bond 2 were HK\$320,000 and HK\$792,000 respectively.

Financial prudence practised by over the years, including controlling credit terms to customers, closely monitoring recoverability of receivables and negotiating extended payment terms from vendors, has allowed management to protect the business of the Group. The Group also has banking facilities available for use when needed. Management believes that the current liquidity position, capital structure and banking facilities will suffice unexpected headwinds, in particular those brought by the COVID-19 pandemic and its aftermath, while providing flexibility to pursue and support new business opportunities.

## **CORPORATE GOVERNANCE**

The Company applied the principles in the Code by complying with the Code throughout the Year, except that:

- 1 not all Directors participated in continuous professional development;
- 2 certain independent non-executive Directors did not attend the AGM held in the Year;
- 3 the management do not provide all Directors with monthly updates; and
- 4 the Chairman of the Board did not attend the AGM held in the Year.

A.6.5 The Directors consider that briefing received from the company secretary of the Company is sufficient for them to render their contribution to the Board.

A.6.7 They consider that such attendance could not help to develop a balanced understanding of the views of the Members because not many Members attended the AGM in the past few years.

C.1.2 Management consider that quarterly updates and periodic instant updates when developments arising out of the ordinary business instead of monthly updates are sufficient for the Board to discharge its duties. Management is also available to address any inquiries from the Directors.

E.1.2 The Chairman of the Board was away on a business trip on the date of AGM.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

The Company did not redeem any of the Shares during the Year. Neither the Company nor any of its subsidiaries purchased or sold any of the Shares during the Year.

## **SCOPE OF WORK OF THE AUDITOR**

The figures in respect of the consolidated statement of profit of loss, consolidated statement of comprehensive income, consolidated balance sheet and the related notes of the Company thereto for the Year as set out in this preliminary announcement have been agreed by the Auditor, to the amounts set out in the draft audited consolidated financial statements of the Company for the Year. The work performed by the Auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by HKICPA and consequently no assurance has been expressed by the Auditor in this preliminary announcement.

## DEFINITIONS

“AGM”	annual general meeting
“Auditor”	PricewaterhouseCoopers, the auditor of the Company
“Board”	the board of Directors (not applicable to Main Board)
“Brazil”	The Federative Republic of Brazil
“BVI”	the British Virgin Islands
“CFLD”	CFLD (Cayman) Investment Ltd., a company incorporated in the Cayman Islands with limited liability and a subsidiary of China Fortune Land Development Co., Ltd., a company incorporated in PRC with limited liability and whose shares are listed on Shanghai Stock Exchange
“CFLD Bond”	interest-bearing instrument of indebtedness issued by CFLD with a coupon rate of 9% per annum and a maturity date of 31st July 2021
“CFLD Bond 2”	interest-bearing instrument of indebtedness issued by CFLD with a coupon rate of 6.92% per annum and a maturity date of 16th June 2022
“CNMS”	customer network management system
“Code”	the code provision of the Corporate Governance Code set out in Appendix 15 of the GEM Listing Rules
“Company”	Vodatel Networks Holdings Limited
“Director”	the director of the Company
“DSEC”	Direcção dos Serviços de Estatística e Censos (Statistics and Census Service) of the Government of Macao
“Exchange”	The Stock Exchange of Hong Kong Limited, a company incorporated in Hong Kong with limited liability (not applicable to Shanghai Stock Exchange)
“FVOCI”	fair value through OCI
“GEM”	GEM operated by the Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM made by the Exchange from time to time

“Group” or “Vodatel”	the Company and its subsidiaries (not applicable to Tidestone Group)
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“HKAS”	Hong Kong Accounting Standard
“HK cent”	Hong Kong cent, where 100 HK cents equal HK\$1
“HKFRS”	financial reporting standards and interpretations issued by HKICPA. They comprise 1. Hong Kong Financial Reporting Standards, 2. HKAS, and 3. Interpretations
“HKICPA”	the Hong Kong Institute of Certified Public Accountants, established under the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)
“Hong Kong”	the Hong Kong Special Administrative Region of PRC (not applicable to Hong Kong Accounting Standard, Hong Kong Exchanges and Clearing Limited, Hong Kong Financial Reporting Standards, the Hong Kong Institute of Certified Public Accountants, Hong Kong Standards on Assurance Engagements, Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements and The Stock Exchange of Hong Kong Limited)
“Macao”	the Macao Special Administrative Region of PRC
“Main Board”	the stock market operated by the Exchange prior to the establishment of GEM (excluding the options market) and which stock market continues to be operated by the Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
“Mainland China”	PRC, other than the regions of Hong Kong, Macao and Taiwan
“MDL”	Mega Datatech Limited, incorporated in Macao with limited liability and an indirect wholly-owned subsidiary of the Company
“Member”	the holder of the Shares
“NCI”	non-controlling interest
“OCI”	other comprehensive income

“Option”	an option to subscribe for Shares pursuant to the share option scheme approved by the Members at the AGM on 22nd June 2012
“PRC”	The People’s Republic of China
“SD-WAN”	software-defined networking in a wide area network
“Share”	ordinary share of HK\$0.10 each in the share capital of the Company
“Tidestone Group”	Capital Instant Limited, a company incorporated in BVI with limited liability and an indirect associate of the Company, and its subsidiaries
“Timor-Leste”	The Democratic Republic of Timor-Leste
“TTSA”	Timor Telecom, S.A., a company incorporated in Timor-Leste with limited liability
“VHL”	Vodatel Holdings Limited, incorporated in BVI with limited liability and an indirect wholly-owned subsidiary of the Company
“Year”	the year ended 31st December 2021

By order of the Board  
**José Manuel dos Santos**  
*Chairman*

Macao, 30th March 2022

**Executive Directors**

José Manuel dos Santos  
Kuan Kin Man  
Monica Maria Nunes

**Non-executive Director**

Ho Wai Chung Stephen

**Independent non-executive Directors**

Fung Kee Yue Roger  
Wong Tsu Au Patrick  
Wong Kwok Kuen

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.*

\* for identification purpose only